



# **Washington State Auditor's Office**

## **2000 Annual Report**

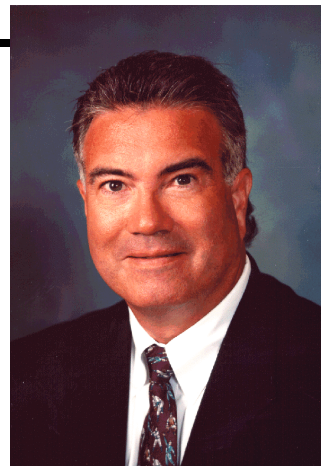


Washington

***State Auditor***

Brian Sonntag

# **To the Citizens of Washington**



January 2001

In this report on our work and on government operations for 2000, I want to recognize the outstanding work our audit clients have done to be accountable over public dollars.

This is no small challenge. We recognize that tighter and tighter budgets mean fewer resources for all governments. We enjoy working in partnership with state agencies, school districts, cities, counties and other local governments to find creative ways to ensure that public dollars are spent in accordance with state law. We also work with governments to address other key areas of concern to citizens, including open public meetings and records, bidding procedures, and conflict of interest.

Secondly, I would like to note the importance of our work in maintaining that accountability. Our work is independent. We provide an outside review of activities that helps governments demonstrate accountability to the citizens whose dollars they spend. That review also helps citizens assess how their governments are operating.

Every tax dollar spent in Washington – state funds, locally collected taxes or federal grants – can be audited by our staff. In any given year, that totals about \$60 billion for the 2,600 governments, school districts and state agencies we audit.

In this report, you will learn about some changes we've made in our operations over the past year. Those changes compliment our continued emphasis on training to ensure government officials understand laws and regulations, on fraud prevention and detection, on investigation of state employee whistleblower assertions and on responses to legislative and citizen requests for audits or information.

Our hardworking, dedicated and professional staff members are proud to play this vital role. We look forward to maintaining and strengthening our constructive partnerships in 2001 and beyond.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

---

## 2000 Highlights

---

**In 2000, our Office noted** several significant achievements. For example, we:

- Strengthened our whistleblower and fraud programs to step up our focus on protecting public assets.
- Completed our first round of audits under the Single Audit of Schools Pilot Project.
- Performed another round of legislatively directed audits of special education, districts' reporting of teacher experience and education (staff mix) and on student enrollment and bus ridership.
- Audited state agencies' contracting practices statewide, looking for trends and best practices. We also continued our participation in a separate effort to help state agencies improve contracting practices.
- Increased our computer expertise to tackle audits of information technology systems.
- Did thousands of hours of training in topics ranging from the handling of Associated Student Body funds to fraud prevention.
- Continued improvements to our Local Government Finance Project, to make its local government financial information more useful to citizens, legislators, other policy-makers and researchers.
- Began an effort, along with dozens of local government officials, to analyze the effects of new national auditing standards on those governments.
- **We audited 1,110 state agencies and local governments.**
- **For those 1,110 audits, we issued 961 reports that contained no findings, an indication government officials generally are good stewards of public money.**
- **We investigated 203 whistleblower assertions. We substantiated over 41 percent (84) of them and recommended recovery of more than \$272,000.**

In 2001, we will continue to work with our audit clients and our experienced staff to improve our own operations and to help local governments and state agencies improve theirs as well. These efforts, as well as new initiatives we will undertake, are designed to improve accountability over public money and to promote citizen trust in government.

## Fraud Program

---

**In 2000, the Office** revised its Fraud Program to further its vision for improved accountability in government in the state of Washington.

- **During 2000, 23 cases of fraud, with losses of approximately \$136,000, were reported.**
- **The average fraud case represented a loss of less than \$6,000. About 52 percent of these frauds involved the misappropriation of cash receipts.**
- **Another 22 percent of these frauds involved employees filing false reimbursement requests or making personal purchases of merchandise.**
- **The remaining frauds represented personal use of assets or time and missing police evidence funds.**

The new Director of Special Investigations manages these two programs, overseeing a network of fraud auditors. The changes emphasize the importance of our focus on fraud and other high-risk areas and demonstrate the value we place on assertions of improper governmental activity. We set agency priorities for fraud, risk-based audits, whistleblower investigations and other special audits and provide advice and specialized resources needed to conduct sensitive audits and investigate critical whistleblower cases.

We have built an exceptional program of fraud prevention, detection and education for our auditors and for the directors and financial managers of state agencies. This fraud awareness training is in great demand around the state.

Our fraud emphasis has been incorporated into our risk-based audit approach. This improved audit direction is providing unprecedented value to the citizens of the state of Washington by promoting accountability, fiscal integrity and openness in state and local government.

Examples of cases in 2000 are:

- An administrative assistant who forged a supervisor's signature on expense vouchers and other documents, misappropriating nearly \$13,000.
- A secretary at a police department who misappropriated more than \$42,000 from a city and a police officer's guild.
- A parks department director who misappropriated more than \$10,000 in athletic tournament and other fees.

## Special Investigations

**Also in 2000, we** continued enhancements to the Whistleblower Program, which was significantly amended by the 1999 Legislature. Our goal is to promptly and appropriately investigate employee assertions of improper governmental activity and to ensure the program's fairness and accountability.

The changes made by the Legislature have greatly improved the program, giving us broad latitude to evaluate employee assertions of improper governmental activity and to investigate assertions in a cost-beneficial manner. They included:

- People being paid for time not actually worked.
- Leave that was incorrectly documented or not documented at all.
- Misuse of state resources. In this category, the most frequently substantiated assertions involved the personal use of state telephones and computers for a variety of purposes, including browsing the Internet for goods and services.

### **Washington State Whistleblower Program Statistics Fiscal year 2000 to present**

Fiscal Year	Assertions	Reasonable Cause	Ethics Referrals	Recommended Recovery
<b>2000</b>	<b>203</b>	<b>84</b>	<b>52</b>	<b>\$272,452</b>
<b>2001*</b>	<b>56</b>	<b>18</b>	<b>18</b>	<b>\$248,379</b>

\* July 1, 2000 through December 27, 2000

- **From fiscal year 1997 to 2000, the Office received complaints of improper government action from 477 whistleblowers involving 953 assertions.**
- **Our investigators made reasonable cause determinations for 330 of these assertions (35 percent).**
- **Referrals to enforcement agencies, including the state Executive Ethics Board, were made for 168 of these substantiated assertions (51 percent).**

## Contracting

---

- **The results of our statewide audit of contracting practices will be issued later this year. If you are interested in receiving a copy, please contact Mindy Chambers, Communications Program Manager, at (360) 902-0091 or check our website, [www.sao.wa.gov](http://www.sao.wa.gov).**

**A major project in 2000** was our Office's statewide audit of state agencies' contracting practices.

We selected this area based on a number of factors, including the amount of money spent, the number and seriousness of whistleblower assertions we received in this area, and on issues that came up in 1999 as a state task force studied certain aspects of social services contracting.

Due to the amount of federal and state dollars spent on contracting each year, we felt that this statewide approach would provide more value for citizens and policymakers, giving them a broad perspective on contracting practices, common problems, and, most of all, best practices used by agencies that can be used as a model when state tax dollars are spent on contracts.

In 2000, state agencies paid billions of dollars for contracts ranging from construction to training. For example, the Department of Social and Health Services estimated that more than two-thirds of its fiscal year 1999, \$6 billion budget (or \$11 million a day) was paid for contracted services. The Department of Transportation reported that more than \$600 million was spent in fiscal year 2000 for contracted activities.

Generally, that money was spent as intended. We did however find some issues regarding change orders, procurement of goods and services, and others that will lead to recommendations to the Legislature later this year.

We also looked for practices that were particularly effective in safeguarding state assets and ensuring compliance with state laws and regulations. Among them were:

The Department of Social and Health Services has delegated responsibility for ensuring proper personal services contract procurement procedures for the entire agency to its Central Contract Services. This devotes substantial resources to contract procurement and authorizes Contract Services to take an active leadership role.

**Another good idea** we found at Contract Services is the use of attorneys to guide contract procurement and to help provide training to agency personnel in such areas as contract drafting and monitoring, tort law, and auditing issues.

Contract Services also has improved policies and procedures, including clear, standardized forms to be used in various contracting activities and has been developing a central contracts database.

The University of Washington has strong controls over purchased and personal services contract procurement. The University has ensured that responsibilities for initiating purchases, awarding contracts, monitoring services received and budget activities, paying invoices, and approving staff decisions have been adequately separated. No one person has complete control over any stage of a contract, with the ability to misdirect funds.

Additionally, the University has delegated buying responsibilities to those with sufficient training in and knowledge of products, vendors, distinctions between purchased and personal services, and state and federal regulations, including ethics requirements.

The State Parks and Recreation Commission has developed successful methods allowing quick access to all agency construction contract information. Each contract is supported by a booklet documenting the advertisement for bid and a copy of the lowest bid information. Additional files contain other relevant information, such as plans, specifications, approved change orders and correspondence.

We were pleased to see these efforts and will share them with other agencies, as well as local governments, in an effort to safeguard tax dollars.

- **Our review of contracting practices will report on:**
  - **State agencies' systems of internal controls.**
  - **The financial transactions of each agency.**
  - **Whether agencies, in making expenditures have complied with state laws.**
- **It also will make recommendations to the Legislature in areas in which we think improvements can be made.**

## Auditing Technology

---

- **We have developed considerable expertise in the use of forensic auditing techniques. This knowledge is used to locate and analyze data on personal computers, and is used during whistleblower and fraud investigations and to assist agencies with their own investigations.**
- **Team STAT may be reached by phoning (360) 586-1915.**

**As state agencies** and local governments quickly move toward providing services via computer, our Statewide Technology Audit Team is working to help them safeguard information technology resources. One of the most important aspects of the team's job is to increase the awareness of our own staff and the clients of information technology risks. We provide:

- Timely performance of risk-based information technology audits, and prompt reporting of our conclusions.
- Effective and efficient risk-based testing of data using computer assisted audit techniques. We have made a lot of progress in the past year in using information technology to audit sensitive financial applications. These audits seem to fit into two broad categories: security controls and whether transactions are processed accurately. We have focused on identifying how fraudulent transactions could occur and whether management would detect them in a timely manner. Application audits also address whether sensitive information, such as credit card numbers, is safeguarded to prevent its theft and misuse.
- Information technology training and consulting to our audit clients and our own audit teams.
- Advice to agencies on the development of policies, standards and guidelines related to the storage and retrieval of documents.

We are committed to supporting the state's digital government initiatives. Team STAT has participated in the Digital Academy, through which agencies collaborated to develop web applications that can be launched quickly and that are "right the first time."

For example, we worked to help create E-forms, or those documents that are used to conduct business over the Internet. Participants from 20 agencies were able to reach consensus on a single E-form that reduced the cost of providing these services and saved thousands of staff hours statewide. The single form helps to speed processing and improves service to customers who now use a common tool when conducting certain business electronically.



**In 2000, we focused** on a significant challenge for local government: GASB Statement 34.

GASB is the Governmental Accounting Standards Board, which sets the reporting standards for governments. GASB Statement 34 sets out far-reaching changes that will mean revisions to financial reporting. It also will mean more detailed, time-consuming preparation of financial statements. For example, governments will be required to:

- Report on the overall state of their financial health, not just individual "funds."
- Include information in their financial statements about the government's public assets, such as bridges, roads, and storm sewers.
- Prepare a management discussion and analysis of the government's financial performance.

Compliance with these new rules will require a lot of attention from our staff and that of local governments and an awareness and understanding from policymakers.

In order to help governments deal with the changes, we've set up five task forces. More than 100 local government employees and representatives of our Office have been meeting periodically to discuss how best to meet the new standards.

Additionally, we have made numerous presentations at association meetings, including a two-day training session in Wenatchee that drew more than 300 people.

We will be taking comments on necessary revisions to the manuals we provide to guide governments in complying with this and other standards.

- **Helpful information on GASB 34 also is available from the Municipal Research Council's web page on GASB, <http://www.mrsc.org/finance/GASB.htm> or the Washington Finance Officers Association web site, [www.wfoa.org](http://www.wfoa.org).**
- **For more information, on our work call Christy Yost (360) 753-3574 or Alexandra Johnson at (360) 664-3149 or go to our web site, [www.sao.wa.gov](http://www.sao.wa.gov).**

## — Schools

---

- **The state's K-12 education system represents 46 percent of total state general fund expenditures.**
- **In our audits, we found that nearly 100 percent of the \$5.9 billion the school system received was spent in appropriate educational areas, for intended purposes, and in compliance with federal and state regulations and local district board policies.**

**In recent years,** we have taken on a number of new audit responsibilities related to school districts. In addition to our regular, required financial and legal compliance audits, we conduct:

- The Single Audit of Schools Pilot Project. School districts spending more than \$300,000 in federal funds are required to have an annual audit of their federal funds. This pilot project allows for a cycled approach at the district level while meeting the federal requirements for audits.

An objective of the pilot project is to meet federal audit requirements in a way that is more efficient and effective. By conducting one federal single audit of K-12 funding, the state hopes to achieve maximum efficiency. Individual district audits may be performed every two or four years as opposed to receiving an annual single audit. In doing this, districts may save an estimated \$225,000 in regular audit costs annually and an additional \$200,000 in federally required audit costs.

- K-12 Audit Resolution audits (enrollment, teacher education and experience reporting, and transportation). These audits, directed by the Legislature, capture additional information about school districts, expand reviews in districts where we have found errors or exceptions during the course of the regular audit. These audits also help identify how much money should be recovered by the Office of Superintendent of Public Instruction, or paid to districts that under-report.

**Special education program** audits also are legislatively directed and funded by a general fund appropriation. The audits provide information to the Legislature, the state Special Education Oversight Committee, the Superintendent of Public Instruction, and districts regarding state and federal compliance, program efficiency and effectiveness, and other special education issues. The results of these audits may lead to recovery of state and/or federal special education funds.

We have formed a special education audit team that includes specialists in the field of special education as well as auditors with education and experience in auditing and management.

In 2000, the audit team completed and reported on its third year of special education program audits.

We did work in districts serving between 1,000 and 3,000 special education students. We looked at compliance with special education regulations and requirements, including the timeliness and accuracy of student evaluations and individualized education programs. We also examined accounting practices in special education.

Overall, compliance was excellent. In most cases, we found that evaluations were prepared in a timely fashion. We did, however, find some instances in which districts were overpaid when evaluations and instruction plans were not completed in a timely manner. We found other instances in which districts lost funding when they provided services to students, but did not do the proper paperwork allowing them to collect money for those services.

In 2001, we will continue to look at further details behind the costs of providing special education, examining the correlation between how services are provided and the cost of those services.

- **We are always available to answer questions or provide additional information regarding any of these audit responsibilities. Please direct any questions to Louella Adams, Audit Manager, SPED/KART Team, (360) 586-4692.**
- **Results of specific audits may be found on our web site, [www.sao.wa.gov](http://www.sao.wa.gov).**

## – Recommendations

---

- **Our goal is to help governments and agencies have “clean” audit reports, or reports that have no findings.**
- **Many of the suggestions we make are in the area of internal controls. Internal controls are actions governments can take to help achieve performance, accountability and prevent the loss of resources. They can help ensure reliable financial reporting and compliance with laws and regulations, helping organizations avoid unanticipated difficulties.**

**One of the most** valuable services we provide is recommendations on how agency operations can be improved. In the past year, our recommendations have centered on:

- Internal controls. This is an area where we often find misunderstandings about what is appropriate when overseeing cash-receipting operations; reporting of time and leave; inventory; and other areas.
- Filing annual reports by the state deadline. In order to provide legislators, policy makers and citizens timely, accurate financial information, the state requires cities, counties and towns to file an annual report on their finances. This information is vital to discussions on funding for various entities, and when citizens want to assess how their governments are operating. We suggest that all entities devote the staffing and time needed to file these reports on time and we are available to offer technical assistance, when needed.
- Grant compliance. We found that several governments did not adequately track expenditures charged to grants, and in some cases, charged unallowable costs to grants. It is important to have staff members in charge of monitoring this spending to avoid jeopardizing future funding.

In 2000, we ran across a situation we had not seen before when we found that a college was in deep financial difficulty, due to mistakes that were made in its accounting system.

Inaccurate financial information was reported to college officials and other state agencies, including our Office. These inaccuracies ultimately inhibited the College's ability to make sound business decisions about the future of the College and contributed to a budget shortfall of about \$1 million as of Spring 2000.

The College took prompt action to develop a financial recovery plan. We continue to work with the College to ensure it is on sound financial footing.

The Washington State Auditor's Office was created in the Constitution as the "auditor of all public accounts." That means every public dollar spent by state and local government in the state falls under our responsibility.

The scope of our work is broad. We audit more than 2,600 governments annually or every two and three years depending on size and complexity of their operations. This includes all state agencies, colleges and universities, counties, cities and towns, school districts and various taxing districts. We audit financial statements and we prescribe the budget, accounting and reporting systems used by local governments to make sure the accounting checks and balances conform to generally accepted accounting principles.

Much of our work, however, focuses on compliance with state laws and regulations and the entities' own policies and ordinances. We also concentrate on areas in which public resources are most at risk of theft and misuse. These areas include cash handling operations, vendor payments, payroll, bidding and travel.

We also are an advocate of government accountability. Through proposals such as the Alliance for Accountability, performance audit and others, we hope to be a leader in this area, and to promote citizen confidence in government.

We actively report our work. Reporting our work is as important as performing it. Because citizens need information to assess how well government is operating, we widely disseminate our audit reports as reporting tools to the public. We also report our work to government entities as management tools to help them improve their operations.

- **We are a large, professional operation. We operate on a \$40 million two-year budget with a staff of about 300 employees.**
- **We have 19 teams located in Olympia and throughout the state.**

## — Contacting Us —

---

PO Box 40021  
Olympia WA 98504-0021

Information and Receptionist  
(360) 902-0370

---

State Auditor, Brian Sonntag.....	(360) 902-0360
Executive Assistant, Monica Cooper.....	(360) 902-0361
Chief Deputy Auditor, Ken Raske.....	(360) 902-0365
Deputy State Auditor, Government and Citizen Affairs, Linda Long .....	(360) 902-0367
Deputy State Auditor, Local Government Liaison, Mike Murphy.....	(360) 902-0362
Deputy State Auditor, Management Services, Chuck Pfeil .....	(360) 902-0366
Deputy State Auditor, Policy and Programs, Jerry Pugnetti .....	(360) 902-0364
Director of Special Investigations (Fraud, Whistleblower), Joe Dervaes.....	(360) 710-1545 Cell, (360) 902-0368
Manager, Communications Program, Mindy Chambers .....	(360) 902-0091
Technical Services.....	(360) 753-4792

### **Local Government Audit Teams:**

Bellingham Team .....	(360) 676-2165
King County Team.....	(206) 296-1751
Lynnwood Team .....	(425) 672-1321
Olympia Team .....	(360) 586-2985
Port Orchard Team.....	(360) 895-6133
Pullman Team.....	(509) 335-2007
School Compliance Team.....	(360) 586-4692
Seattle Team .....	(206) 615-0555
Spokane Team.....	(509) 456-2700
Tacoma Team.....	(253) 593-2047
Tri Cities Team.....	(509) 734-7104
Vancouver Team.....	(360) 696-6605
Wenatchee Team .....	(509) 662-0440
Yakima Team.....	(509) 454-7848
WA Education System Single Audit Pilot Team .....	(360) 586-1901

### **State Government Audit Teams:**

Team Financial Audit.....	(360) 753-2680
Team Higher Education .....	(206) 543-4196
Team Human Services.....	(360) 753-3405
Team Judicial, Executive, and Legislative .....	(360) 586-1972
Team Statewide Technology Audit .....	(360) 586-1915

Web Site Address.....<http://www.sao.wa.gov/>

**State Auditor's Office  
Mission Statement**

The State Auditor's Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments, we strive to ensure the proper use of public resources.

---

In accordance with the Americans with Disabilities Act,  
this document will be made available in alternate formats.  
Please call (360) 902-0370 for more information.

---

